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# Industrial Development Banking in Nigeria: A Forty Year Failed Experiment

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ABSTRACT The first industrial development bank in Nigeria was established in 1964 as part of the First National Development Plan. Its original mandate was to provide medium- and long-term finance to privately owned enterprises in Nigeria. Forty years after its establishment (1964–2004) funding still remains the major obstacle to industrial development in Nigeria. This paper argues that the major problem for the bank was the government's inability to separate the affairs of the bank from politics.

KEY WORDS: Nigeria, development banking, industrial finance, politics

JEL CODES: G21, O36, O20, E61

## 1. Introduction

Essentially, development banking has been a common economic strategy among developing countries. Whereas among some of the developed countries this kind of banking initiative was a post-world war strategy, in the developing countries it has been warranted by accumulated development needs caused by long periods of colonial and political struggle. The original intent of such banks in most developing countries in which they exist was to facilitate economic development and growth by attending to the funding needs of the fastest growing and most greatly endowed sectors of the respective economies (Otiti, 1998, p. 56). Ideally, the concept of such banks was to create an alternative window for providing enterprises and projects with long-term finance that commercial banks were unable or unwilling to supply (Adegbite, 2005, p. 216; Popiel, 1994, p. 47; Nwankwo, 1980, p. 94).

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Though the banking model has been very successful in some countries, especially among the emerging economies of Latin American and South East Asian countries, its general disposition in most under-developed countries has come under intense criticism, especially as concerns the structure of its lending facilities. Todaro and Smith (2003, p. 741), for instance, have argued that in spite of their impressive growth and importance, the bank's excessive concentration on large-scale loans has remained a major area of criticisms.

Nigeria adopted the development bank initiative in the early stage of her nationhood. As a result of the 1962 post-independence First National Development Plan, which was drawn up to facilitate the rate of industrialization in the country, and considering the experiences in other countries, in 1964 the Federal Government came up with the idea of a Nigerian Industrial Development Bank (NIDB). Anyanwu *et al*. (1997, p. 147) specifically demonstrate that, in the case of Nigeria, the industrial development banking idea emerged as a result of the need to plug gaps arising in the financial system, to create banks that were catalysts for industrial growth, and to find reliable local agents for channelling industrial and investment loans from the World Bank.

As is argued in this paper, some operational constraints and environmental peculiarities helped to undermine the achievement of these laudable goals. Again, the inability of the NIDB to cater for the funding needs of the industrial sector in the country led to the subsequent establishment of other supporting development financial institutions, to at least take care of other sectors of the economy. It was as a result of this that the Nigerian government took a decisive step to restructure the entire development banking mechanism in the country. Emerging from that action was the new concept of a Bank of Industry (BOI) – an outcome of the merger of NIDB, the NERFUND (National Economic Reconstruction Fund) and the NBCI. This essentially confirms the Federal Government's acceptance of the earlier report of a World Bank initiated review on the Nigerian Financial System (The World Bank, 2000). Despite the government's decision to consolidate the DFIs, doubt still looms regarding whether the new institutions, especially the BOI, would be able to provide the much-needed financial support for industrial development in the country. The basis of this doubt is that the operating economic environment in the country still remains difficult and unstable.

This paper will on the above premise access the origin, nature, structure and operational mechanism/performance of industrial development banking in the country, over the 40 years of its existence. The aim is to identify opportunities, threats, and weaknesses suffered by the bank in its attempt to promote industrial development in the country, to find out the extent to which it succeeded and/or failed, and to postulate on the chances of the BOI surviving the persisting turbulent industrial climate in Nigeria. To achieve this goal, the rest of the paper is organized into five sections as follows: the origin of development banking in Nigeria; the emergence of the NIDB; the operational difficulties faced by the bank; the emerging trends in industrial development banking; and finally a conclusion.

## 2. Origin of Development Banking in Nigeria

Prior to 1956, the development-banking model in Nigeria adopted the holistic approach where one institution was structured to serve as a window for providing credits to both government and the private secor development projects, irrespective of the size and nature of the businesses involved. This was especially the case with the Nigerian Local Development Board (NLDB) that came into existence in 1946. The idea of establishing the Board was an integral part of the 1945 Ten-Year Development (Okigbo, 1981, p. 130; Nwankwo, 1980, p. 96). Expectedly, the Board, being a brainchild of the government, was designed to rely heavily on government grants and subventions for its operating capital.

In 1949, while retaining the multi-sectoral lending model, the Nigerian Local Development Board was stratified into four to accommodate the division of the country into four regions – the East, the North, the West and the Colony. Each of the regions was endowed with a development board as an offshoot of the NLDB, and the emerging four new boards shared the assets of the NLDB. At the central level, the NLDB was renamed the Colonial Development Board (CDB), with a mandate to operate within a 10-mile radius of the national capital territory, Lagos. It was to double in the two roles of facilitating government development programmes and providing assistance to the private sector. The idea behind this formula was that while the regional boards concentrated on providing funding and assistance to both their respective regional governments and the private sector, the Colonial Board would do the same with the national capital territory.

Despite the good intentions behind the above arrangement, as well as the subsequent efforts of both the CDB and the regions to advance the course of development through the use of their respective regional development boards, the performance of those institutions remained of low impact and insignificant. With the end of the Ten-Year National Development Plan in sight, it dawned on both the regional and colonial governments that the strategy of channelling resources via the development boards had yielded little in the way of results. Among others, the boards were accused of lacking the requisite specialization in their lending operations; and involving some political opportunism, favouritism and corruption in the allocation of finance. The case of the Federal Loans Board, for instance, was clearly documented. The apex development funding institution was accused of scheming out relevant industrial promotions and activities that otherwise would have genuinely aided development, by placing restrictions on loans to trading and foreign owned enterprises; refusing to grant loans to set up new businesses; denying loans to prosperous enterprises on the grounds that they were capable of raising capital from normal sources; refusing to grant working capital loans on the grounds that these could be raised from commercial banks; and refusing to fund projects that were considered potential competitors to government-run operations – thus leaving it virtually with no reason to make any loans at all (Nwankwo, 1980, p. 970). The case of the CDB, as was quoted in Nwankwo (1980, p. 97), was also amplified as follows:

> Not a single agricultural loan [by the CDB] … was successful, most of the applications came from individuals who apparently viewed the board purely and simply as a charitable organization. Some of the staff of the corporations were not usually available for effective job supervision, and loan expenditure was not closely supervised and there was consequently a good deal of misapplication of funds.

It was because of these allegations that in 1953/54, the Nigerian and United Kingdom governments commissioned a World Bank study to investigate the problems surrounding the boards' non-performance. The findings of the study team ascribed the problems to the overly broad field of action assigned to the bank, and affirmed that it was too broad to allow the bank to extend loans and grants simultaneously to both public bodies and private enterprises (Government of Nigeria, 1954). The team equally established, as part of the problems associated with the multi-sectoral lending practice, the case of a high default ratio arising from non-supervision of loan proceeds and the use of such proceeds for purposes entirely unrelated to the project for which the loan was granted. In their recommendation, the World Bank team stressed the need to split the functions of the boards, and to allow the different functions to be undertaken by separate institutions, while laying much emphasis on the provision of credits for private businesses. They equally recommended that to curb the problems associated with misuse of loan proceeds, all of the boards' funds should be made available for any of the following purposes: (i) direct investments in productive agricultural and industrial projects; (ii) loans to agricultural, industrial and commercial enterprises; and (iii) encouragement of agricultural and industrial development by pilot operations and, in the industrial field, by technical and managerial advice to entrepreneurs.

Instead of keeping to the World Bank recommendations, respective Production Development Boards (PDBs) were established at the regional level to undertake direct investments in agriculture and similar related activities or in agro-allied industrial enterprises in the regions. While the PDBs were mandated to act as entrepreneurial investors and developers, the RDBs were left to undertake lending operations (Okigbo, 1981). This in effect did not solve the problems inherent in the old structure. Consequently, in 1955, the Nigerian government directed the regions to merge the two development boards respectively in operation in each of the regions. In 1956, the merger was finally consummated into what gave rise to a Regional Development Corporation (RDC) for each of the four regions. Within the same period, the CDB was replaced with another national development finance institution – the Federal Loans Board (FLB). This latter structure remained in tact until after the country's independence in October 1960.

## 3. Emergence of the Nigerian Industrial Development Bank (NIDB)

Two factors latter contributed to the emergence of the industrial development bank in Nigeria. First was the country's independence in 1960, which created the need for the government to facilitate national development. The second

factor was the prevailing poor performance of regional development institutions in the country, and the long overdue hunger to restructure them. Arising from the former was the commissioning of the First National Development Plan in 1962. This was in addition to the fact that as of that time the existing investment financing structures were too weak to provide the capital needed to realize the industrialization goal embedded in the plan. The country's financial system was then just evolving at the time of conceiving the Plan, with the establishment of a central bank in 1958 and a stock market in 1961.

Based on this, the terms and provisions of the Plan gave rise to the adoption of a special model of development banking in the country, very different from the previous ones. It is worth pointing out that the development bank that later emerged was heavily influenced by the nationalistic disposition of the then government, which later became the basis for its failure. More uniquely however, it was explicitly designed to give Nigerians a good measure of control over national economic affairs, while at the same time reducing the level of dependence on external sources for capital and manpower (Government of the Federal Republic of Nigeria, 1962, p. 3). It was equally recommended that a joint ownership arrangement for the bank, to be made up of the Federal Government, Nigerian private investors, and foreign private capital, be adopted (Government of the Federal Republic of Nigeria, 1962, p. 63).

Consequently, in order to ensure the alignment of the new development banking idea with the general practice in other developing countries, the Federal Government in its 1962 national budget, accepted the terms of the Plan; and stressed that the proposed development bank for industries would be modelled along the same lines as those operating successfully in such countries as India, Pakistan and Iran (Government of the Federal Republic of Nigeria, 1963). The bank later emerged from the reconstruction of the Investment Company of Nigeria Limited (ICON) – an industrial development finance company incorporated in 1959 and largely owned by British investors. Essentially, the reconstruction was motivated more by the fact that ICON was originally designed to operate as a development banking institution, with the objectives of assisting industrial, commercial and agricultural enterprises in Nigeria (Nwankwo, 1980, p. 99). Hence, the reconstruction that gave rise to NIDB mainly involved changes in the structure of the share capital and further issue of shares to Nigerian groups and individual investors (NIDB Annual Reports, 1963, p. 8). The reorganization was meant to create an institution which had the full backing of all the different tiers of government in Nigeria without being under their direct control, and commanded and enjoyed the full confidence of local and foreign investors (Nwankwo, 1980, p. 100).

Because the post-independence national industrial policy in Nigeria focused more on large-scale industries, the NIDB was structured to offer financial assistance only to large-scale enterprises (Essien, 2001, p. 3). Its small and medium-scale dealings were meant to be through the intermediation of the various Regional Development Corporations and other expanded credit institutions, including the World Bank (para. 59). The argument for

the involvement of the World Bank in the development bank initiative was that such an institution would serve as a bridge for successfully extending the bank's credit facilities to local industrial operators (Nwankwo, 1980, p. 95).

The bank was kick-started with an authorized capital of £N5 million, made up of £N4.50 million as the paid-up capital; and a £N2 million interest-free, long-term loan made available by the Nigerian Government (West Africa, 1962, p. 367; Anyanwu, 1993. p. 180). This investment gave government a total equity stake of 50% of the Company's voting capital. This was in addition to other equity investments from foreign institutions such as the International Finance Corporation (24.99%), Bank of America (3.56%), Chase International Investment Co. (8.04%), Commez Bank (1.93%), Irving International Finance Corporation (1.93%), Instituto Mobiliers Italiano (3.66%), North West International Bank (1.93%), Societe Anonyme (1.41%), Bank of Tokyo Ltd (1.93%), UK Institutions (7.51%), Bank of West Africa (1.25%), Barclays Overseas Development Corporation (1.25%), CDFC (5.02%), UAC (1.88%), and Unclassified (7.74%) (Nwankwo, 1980, p. 101). At the same time, between 1964 and 1969, foreign patronage dominated the activities. This structure was later changed following Federal Government acquisition of 65% of the shares of the bank in 1976.

At inception, the bank was designed mainly to provide medium- and long-term finance – in the form of loans, debentures and equity investment – to enterprises privately owned in Nigeria. Also, it was designed to rely on the equity participation of the owners, grants and loans from the Government, loans from international agencies such as the IFC and the World Bank, and other minor borrowings (Zaky-Ade, 1991, p. 5). To give more backing to the bank's borrowing power, especially from the World Bank, the Federal Government promulgated the Nigerian Industrial Development Bank (Guarantee) Act No. 63 of 1966 and No. 45 of 1970. The main aim of the Act was to grant authority to the Federal Government to give guarantees in respect of proposed loans to the NIDB. It was equally in the bank's schedule to encourage other financial institutions and individuals, both Nigerians and overseas, to participate in its investment and lending operations. Along this line, it provided technical, financial and managerial advice and direction to enterprises. This came in the form of assisting clients to obtain the necessary advice in carrying out the feasibility studies and financial planning that usually preceded the actual investments.

The bank's terms of reference essentially excluded certain economic projects – including direct funding of agriculture, trade and transport, cottage and small-scale enterprises, public corporations and government projects, social infrastructure projects, as well as getting involved in ordinary commercial banking like accepting time and demand deposits. The exclusion was based on the argument that these sectors were run by small-scale indigenous businessmen who could not meet with the standard lending principles of the bank. At the same time, the bank's exclusion from funding government projects was in accordance with the requirements of the overseas' shareholders. Explaining this further, Nwankwo (1980, p. 105) posited that since foreign interests predominated with around 75% equity ownership, the

NIDB's policies and operating procedures were largely determined by foreign interests. Its restrictions on industry and mining were based on the grounds that the bank was essentially a development finance company and it seemed safer to stay within the fastest growing sectors (Okigbo Committee, 1976).

Qualification for any of the NIDB financial assistances was based on certain criteria, including that the proposed project must be capable of giving maximum economic benefits in the areas of employment, saving foreign exchange, raising living standards, and contributing meaningfully to the country's GDP. Though not technically faulty, these guiding principles were strategically and practically not favourable to the emerging indigenous economic sector, as most of the indigenous promoters and industrialists found them extremely difficult to meet. This left only strong and established foreign firms operating in Nigeria at a far greater advantage than their indigenous counterparts, and, as will be shown later, became the core basis for the criticisms that greeted the bank from the local press.

Consequently, immediately after the Nigeria civil war (and at the start of the 1970s), the federal government deemed it fit to amend the guidelines governing the operations of the NIDB, with the main intent of accommodating the devastated post-war economy. The government equally issued a directive in July 1970 that the bank should henceforth grant not less than 80% of its loans to indigenous enterprises whose applications were considered on a purely commercial basis (Central Bank of Nigeria, 1970, p. 61). On its own discretion, the bank flexed some of its erstwhile rigid policies and stances, in response to the pressure coming from government and the indigenous investing public. The subsequent amendments included: reducing the minimum capitalization of admissible projects; inclusion of first-class hotels of international standard and tourist projects as part of the admissible projects; and the inclusion of productive projects sponsored by government or which the government had a controlling interest as part of the admissible projects. A noticeable impact was recorded as a result of the amendments, with the proportion of indigenous projects sponsored by the bank (measured by the ratio of NIDB sanctions to Nigerian-controlled firms to those of foreign-controlled) soaring from 10.1% in 1970 to 65.0% in 1971 and 82.2% in 1972. Although the level fluctuated through the rest of the period, it however averaged as high as 77% between 1971 and 1977, and 81.9% between 1981 and 1991 (see NIDB Annual Reports and Accounts for the relevant years; Nwankwo, 1980).

In principle, the essence of the reforms in the structure of the NIDB was to realign for higher proportionate service delivery to the indigenous sectors of the economy. Nevertheless, in practice, this was not the case. Notwithstanding the higher proportion of NIDB sanctions to indigenous firms, a greater proportion of sanctioned loans and equity investments remained undistributed, for the simple reason that many of the indigenous firms were still unable to meet the bank's lending conditions and terms. Apart from 1972 when a reasonable proportion of the cumulative undistributed sanctions were disbursed, subsequent years recorded very low percentages of sanction disbursement. It was as low as 27.9% and 20.9%

in 1973 and 1974, respectively. If the years 1983, 1986 and 1989 are isolated, the percentage of undistributed sanctions averaged as high as 48% between 1983 and 1991 (see NIDB Annual Reports for the relevant years). In the same vein, the quality of loans similarly deteriorated, forcing the management of the bank to assert clearly that Nigerian-controlled client companies had portrayed bad management and poor response to their debt-servicing obligations (NIDB, 1972, p. 6). These political manipulations of the bank's investment and lending programmes represented an entrenchment of inefficiency over and above prudent commercial and business practices. The above problem persisted up until 1994, when the board of the bank was dissolved, leaving it to run without a board for about eight years before it was reconstituted in 2002.

## 4. Operational Difficulties Faced by the NIDB

All through its period of existence, the major industrial sub-sectors that benefited from NIDB loans and equity participation, as outlined by the Central Bank of Nigeria (2000, p. 134), have since collapsed. Ironically, the country cannot boast of any success in any of the industrial sub-sectors. That is to say that if measured by the performance of these areas, the bank may have no achievement to show for the first 40 years of its existence.

The major problems that NIDB faced from inception arose mainly from its own structural and operational characteristics, as well as from some external political manipulations. First, the bank was originally designed to assist only medium- and long-term industrial enterprises; secondly, its disposition to risk was too conservative; and thirdly, it was designed to depend greatly on government for its operational finances. Arising from the last factor is the fact that the capacity of the bank to efficiently assist the industrial sector of the economy was highly constrained by the intense political instability, frequent military coups and the attendant poor governance.

First, the government aimed to use the bank to finance its industrialization programme – which was built upon the idea of medium- and large-scale enterprises. As of 1962, when the idea was first conceived, the country was still grappling with political freedom from the British Colonial Government that ended in 1960. The citizens had little access to important economic activities, especially within the private sector, as the economy itself was almost fully under foreign control. Clearly, policies that favoured big industries automatically favoured foreigners against their Nigerian counterparts. By implication, the timing of the development banking policy proved wrong, especially considering that its mandate was primarily to take care of indigenous businesses. As of that time, these prime targets had no capacity of their own to benefit from the loan facilities and equity investments of the bank. It was this factor that was responsible for the first major difficulty the bank faced at inception. The initial controversies therefore centred on the set of business enterprises that were the actual beneficiaries of funds channelled through the bank. Was it the indigenous private industrial enterprises as envisaged by the First National Development Plan

and the Decree establishing NIDB, or foreign industrial establishments that were virtually dominant in the economy up to the early 1970s? As it was, the actual beneficiaries were the latter, who not only had the technical expertise for large-scale industrial operations, but also were far better established in the system.

Ironically, the above political interplay ignored the contributions of the foreign enterprises on the local economy, and concentrated only on the issue of industry ownership and control. The dominance of alien firms as major beneficiaries in the operations of the bank was utterly criticized on the grounds that the bank still relied on the Federal Government for funding (Government of the Federal Republic of Nigeria, 1980). While the latter cannot be disputed, it is myopic and subjective to have ignored the added-value effects of the benefiting foreign businesses on the economy.

Also criticizing the funding patterns of the bank, the Industrial Enterprises Panel set up within that period to review the ownership structure of businesses in the country, argued that it did not appear right for public funds such as were channelled by Government to NIDB to be loaned to alien enterprises. The Panel argued that the operations of the bank would need to reflect more emphasis on the financing of indigenous enterprises and less foreign enterprises. It recommended further that as an operating target, the NIDB's investment going to foreign enterprises should not exceed 10% of its annual approvals and disbursements (see Nwankwo, 1980, p. 104). The 1976 Financial System Review Committee set up by the Nigerian government equally legitimized this notion by arguing that following the implementation of an indigenization policy within the period, NIDB's record of accomplishment had moved from a level of 68% investments in alien enterprises in 1970 to 30% in 1979. The report however, did not indicate whether industrial productivity had risen or fallen as a result of the increasing NIDB support.

The conservative risk disposition of the bank that was alleged to have also disadvantaged Nigerians, and distorted indigenous industrial development, was equally defended by the bank. To the bank, it became very difficult reconciling the local call for more funding to indigenous businesses with the commercial principles upon which the bank was conceived. Hence, the problem of scheming out Nigerian entrepreneurs from its programmes continued to be deepened by the fact that most enterprises conceived by Nigeria's industrial promoters then were considered too risky, and not meeting the bank's requirements. The result was that of continued sidelining of Nigerians, and concentration on much more favourable and more organized foreign-owned enterprises. In its 1966 Annual Report, the bank expressly acknowledged the sporadic criticisms from the press and the public on its failure to assist Nigerian promoters, but however defended itself saying that most Nigerian sponsored industries came under the category of small-scale industries – an area outside the legal mandate of the bank (NIDB, 1966, p. 5).

Structuring the bank to depend so much on government subventions and loans also did not help matters. The implication was that at the peak of the oil boom, the government channelled the bulk of the oil revenue through the

bank. With the drastic reduction in government subventions to them in the 1990s, their operations reduced drastically and by late 1990 they had all ceased to operate, as they depended mainly on government funding (Anyanwu, 2004).

Explaining this further, the Central Bank of Nigeria (2000, p. 134) identified some factors that constrained the performance of the bank which to included the drying up of their major traditional sources of funds (government and foreign); and the friction in the usual federal budgetary allocation to DFIs in the country. This development weakened the bank's ability to adopt proactive market-oriented approaches and operate profitably (*Business Times*, 1999, p. 18). Moreover, with the crash in the world oil market in the late 1970s and early 1980s, the bank had already started having serious funding problems. Not only was the funding not coming regularly from government, but also industries floated with the aid of the oil revenue started experiencing serious problems. The average capacity utilization, for instance, fell from its 1981 level of 73.3% to 63.6% in 1982; and crashed down to 49.7% in 1983. The industrial crisis continued, with capacity utilization falling to the lowest level of 38.3 in 1985 (see Central Bank of Nigeria Annual Reports for the relevant years). On general grounds, the performance of the manufacturing sector remained highly marginal, with the percentage growth of the sector averaging just 4.65% between 1960 and 1995; while the percentage contribution of the sector to the total GDP averaged 7.5% in the same period (Anyanwu *et al.*, 1997, pp. 450–451). According to the UNIDO Competitive Industry Performance Index (CIPI), Nigeria ranked 78 out of 88 countries in 1998; and her total manufacturing value added declined from US$2.4 billion in 1985 to US$1.7 billion in 1999 (Albaladejo, 2003; Akpobasah, 2004). These are clear indications that the NIDB became incapable of inducing significant growth in the industrial sector within its period of existence.

This problem was again aggravated by the promulgation of the Nigerian Enterprises Promotion Decree in 1972 (and its subsequent amendment in 1977), which aimed to transfer most businesses to government and indigenous operators, at the expense of foreign firms. The consequence was that while the total disbursements of the bank to local firms increased, the quality of loans of the bank was inversely on the decrease. In the same vein, the earnings of the bank witnessed a sharp declining trend from the period of the indigenization policy. From a net income after tax level of US$424,252 in 1970 before the adoption of the indigenization policy in 1972, the profitability of the bank declined drastically to a level of US$261,538 (that is about a 74.8% decline) in 1974, about two years after the adoption (see Table 1 below). This trend corresponded with the rise in the level of bad debt provisioning, which jumped from US$14,060 to US$398,689 within the same period. Ironically, the percentage of the bank's total sanctions (loans and investments) to indigenous businesses jumped from 10.1% to over 50%, also within the same period; and averaged over 80.0% between 1975 and 1991 (see Table 1 below). The implication was that while an emphasis was laid on using the bank to

**Table 1.** Levels of NIDB's bad debt provisions, net income and percentage sanctions (loans and investments) to wholly owned Nigerian firms

| Year | Bad debt provisions (in US$)* | Net income (in US$)* | % of sanctions |
|---|---|---|---|
| 1970 | 14,060 | 424,252 | 10.1 |
| 1971 | na | 940,104 | 65.0 |
| 1972 | 124,652 | 356,119 | 82.2 |
| 1973 | 102,178 | 743,774 | 76.9 |
| 1974 | 398,689 | 261,538 | 50.5 |
| 1975 | na | na | 73.9 |
| 1976 | 1,949,362 | 2,043,252 | 98.6 |
| 1977 | 2,110,447 | 3,088,652 | 91.8 |
| 1978–1985 | na | na | na |
| 1986 | 2,838,119 | 2,059,406 | 92.9 |
| 1987 | 3,945,274 | 1,681,592 | 69.5 |
| 1988 | 4,090,308 | 4,156,388 | 99.0 |
| 1989 | 3,945,873 | 3,959,405 | 47.7 |
| 1990 | 11,446,144 | 3,644,279 | 89.9 |
| 1991 | 12,659,536 | 3,642,785 | 66.4 |

*Notes*: * Amounts here were Nigerian Naira values converted to US$ using prevailing annual exchange rates published by the Central Bank of Nigeria.
*Sources*: NIDB Annual Reports (for various years); Nwankwo, 1980.

promote and support weak indigenous businesses, little attention was paid to the welfare and survival of the bank.

Explaining further the above development, the Central Bank of Nigeria maintained that some of the loans outstanding in the books of the DFIs were non-performing loans owing largely to inefficient portfolio management and originating in insider abuses, inadequate attention to prudential standards, as well as political and social interference in recruitment of personnel, project selection and loan disbursement (Central Bank of Nigeria, 1996, p. 4). The Central Bank also concluded that the experience of DFIs in the country showed that one of the reasons why the managing of such loans proved difficult was the failure of the projects to which they were tied. These background problems continued to hurt the bank's progress over the years, and culminated in the convergence that took place in 2001.

The World Bank, in its assessment of the Nigerian Financial System, reported that traditionally the major source of long-term debt capital for the real sector, DFIs had been increasingly marginalized and presented a dismal financial picture showing: (a) a combined annual loss, for the most recent fiscal year for which financial statements were available, of N2.1 billion or about 8.6% of average total assets; (b) accumulated losses in year-end balance sheets of N10.2 billion (44.5% of assets); (c) negative net worth of N5.8 billion (25.2% of assets); (d) a gross loan portfolio adding to N17

billion. For the four DFIs for which data were available, 78% of the loan portfolio was non-performing; (e) government investment, inclusive of external loans (assumed to be guaranteed) of roughly N33 billion with an additional N10.5 billion required if capital is to be raised to 15% of total assets; (f) virtually no 1998 disbursements by four of the seven DFIs, and a net decrease of N2 billion for the seven DFIs as a group; and (g) combined total assets declined almost 17.8% in nominal terms in the most recent reporting year (The World Bank, 2000).

## 5. Emerging Trends in Nigeria's Industrial Development Banking

Following the recommendation of the World Bank team, and in line with the government's reform programmes, the Federal Government in 2001 announced its plan to rationalize development finance institutions in Nigeria so as to make them more effective. The resolve to restructure the DFIs was based on the consideration, first, that the privately-owned commercial and merchant banks were not meeting the needs of industries, while the government-owned DFIs had not been able to fulfil their mandate of channelling long-term finance to industrial and agricultural sectors; and secondly, that apart from being in a very poor financial state, the DFIs also needed to have their operations rationalized and streamlined to eliminate overlapping functions, and refocus their energy and resources to perform more effectively.

The World Bank had earlier in 2000 suggested some generic steps to be taken to strengthen all DFIs that remained in existence; and specifically advised for the partial merger of NIDB and NBCI, and the restructuring of NIDB without the infusion of new capital by government. The World Bank also stressed that the partial merger would take the form of: transferring NBCI liquid assets and relevant fixed assets to NIDB in the form of a capital contribution; closing NBCI zonal offices and turning the loan portfolio over to professional debt collectors; and transferring existing debt to government (The World Bank, 2000).

The Nigerian government again failed to adopt the holistic measures recommended by the World Bank. Instead, it chose to rationalize the DFIs by adopting far greater merger arrangements. The merger of the Nigerian Bank for Commerce and Industry (NBCI), the Nigerian Industrial Development Bank (NIDB) and the Nigerian Economic and Reconstruction Fund (NERFUND) in 2000 gave rise to the formation of the new Bank of Industry (BOI). At the same time, the People's Bank of Nigeria (PBN), the Nigerian Agricultural Co-operative Development Bank (NACDB) and the Family Economic Advancement Programme (FEAP) were fused to form the Nigerian Agricultural, Co-operative and Rural Development Bank (NACRDB). While the BOI was charged primarily with providing financial and advisory services to enterprises, NACRDB was to undertake commercial development banking functions.

The Bank of Industry (BOI) Limited, which was formally launched in May 2002, was established with an authorized share capital of N50 billion (about US$500 million) – wholly subscribed by the Government, to replace

NBCI, NIDB and NERFUND, with an inter-ministerial committee set up to oversee the merger. Inclusive of the 10% shares that are warehoused for Nigerian citizens and associates, the shareholding structure indicates that the Ministry of Finance Incorporated and the Central Bank of Nigeria, respectively, hold (on behalf of the Federal Government) 59.54% and 40.36% of the shares. The new bank was mandated to integrate and carry out those primary functions which the three erstwhile DFIs were originally established to undertake, in addition to assisting in resuscitating ailing industries and promoting new ones to cover all the geopolitical zones in the country.

However, a lot still depends on the success of other reform agenda being put together to lift the entire economy from part of difficulties. As it stands presently, there is utterly a lack of confidence in the reform process, as most of the initiatives have come under intense public criticism for their pro-poverty posture (see for instance Ezeoha, 2005). The success and continuity in the policies on privatization support for local industries are capable of boosting the industrial atmosphere. The consequences of this development would likely create better complementary opportunities for the BOI. One area where the dream of the BOI is likely to hit a rock, however, is on the scale of operations.

Unlike the original model (NIDB) that was based on funding large- and medium-scale industrial operations, the new Bank of Industry is primarily set up to promote the development of small, medium and large industries in the country. This non-specialization posture of the new bank is likely to challenge its structure and capacity. As alleged by the African Development Bank (AfDB) in its 2004 report, for instance, the present corporate governance of BOI as well as its managerial systems, practices and culture are not suitable, thus impeding its performance. Along this line, the AfDB recommended that for BOI to effectively carry out its mandate, fundamental institutional and managerial reforms bordering on corporate governance, operational, managerial and financial efficiency needed to be carried out immediately. Unfortunately as it stands, the Nigerian government is yet to take into consideration the AfDB advice.

There is still a preponderance of government appointees in the board of the bank – a factor that is capable of weakening its operational autonomy, as well as its corporate governance posture. In addition, the bank does not seem to have the necessary legal backing that would enable it to achieve its mandate. This is evidenced in a 2002 tussle between the legislative and the executive arms of the Nigerian government, where the latter was accused of jump-starting the restructuring without following due legislative process (National House of Representatives, 2002). Funding also remains another gloomy area in the survival of the BOI. This is the view widely chronicled in the Vanguard Newspaper [Nigeria] of Sunday, 21 December 2003, which cited specifically the president of the Lagos Chamber of Commerce and Industry and the managing director of the Bank of Industry (BOI), as having highlighted the impeding threats posed to the new industry development bank by the dearth of funds to meet and fulfil its purpose. While expectations

are on government to provide the needed funds, government instead has already enlisted BOI as one of the public enterprises for privatization.

As at the time of the consolidation, the underground problems facing the country's industrial operators were still visibly in existence. The problem of the industry is not necessarily that of funding, but how government would address the daunting issues in the economy such as a largely unattractive investment climate caused by poor infrastructure and massive public corruption. There are cases of escalating costs for capital and a high exchange rate – factors that highly constrained the capacity of the industries in their bid to renew and modernize their antiquated plants and machines, and to be able to take up the challenges of reforms that banned the importation of locally-made goods started by the present regime since 1999.

## 6. Conclusion

Emerging evidence from the above review has shown clearly that the industrial development banking experiment within the first 40 years (1964–2004) of its evolution in Nigeria has been very unsuccessful. One of the main reasons for this was the interference, by the government of Nigeria, in the original structure and operational principles upon which the idea was laid. First, government in its bid to promote indigenous enterprises forced the bank to finance weak and non-creditworthy indigenous businessmen. This undermined the commercial and economic motive for the establishment of the bank, as many such projects sponsored were not able to survive the test of time. Again, government structured the bank to depend heavily on its supports and the support of the World Bank, with less emphasis on competition and challenges to the financial system. Hence, when the external debt burden became a serious national burden, the World Bank and other international agencies became very conservative, with the government being subjected to a lot of budget constraints. The impact of this was immediately transferred to the NIDB. Perhaps, if government had allowed the bank to operate freely without using it as an instrument to promote indigenous business at the expense of more economically viable foreign industries, the bank would have been able to maintain its original structure and would have survived the test of the hard times within the period of its existence.

The lesson to learn therefore is that if the new Bank of Industry is to survive the turbulent economic environment in the country at present, government must become completely hands-off with regards to operations and management. Experiences from countries like South Africa and India have shown that there is nothing wrong with government owning such an institution, but what is technically wrong is the level of a government's involvement in corporate governance issues in the bank. If at all, the commitment of government must not be such that it can undermine the strength of the bank's corporate governance mechanism. Project funding should be devoid of any kind of unprofessional biases and considerations, and must be made strictly along the prevailing market condition. Most importantly, the bank's ability to attract funds outside government's shores may be greatly

hampered if efforts are not made to give it necessary regulatory backing. The present politicization of its corporate status is likely to make it impotent, notwithstanding the good intentions of the government. In the present move by government to promote the industrial sectors of the economy, the BOI can only play a complementary role if given a reasonable degree of corporate stature.

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